


NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -



IN THE MATTER OF AN APPLICATION by the **Village of Port Williams** on behalf of its **Water Utility**, for Approval of Amendments to its Schedule of Rates and Charges for Water and Water Services and Schedule of Rules and Regulations

BEFORE: Kulvinder S. Dhillon, P.Eng., Member

APPEARING: **VILLAGE OF PORT WILLIAMS**
Melony Robinson, MBA, CPA, CMA
Consultant

Darlene Robertson
Clerk

Geneva Newcombe
Finance Manager

Joe Keddy
Superintendent of Public Works

HEARING DATE: January 12, 2016

FINAL SUBMISSIONS: January 27, 2016

DECISION DATE: March 17, 2016

DECISION: The Schedule of Rates for Water and Water Services are approved as amended and subject to a Compliance Filing.

I SUMMARY

[1] The Village of Port Williams (“Village”) applied to the Nova Scotia Utility and Review Board (“Board”) on behalf of its Water Utility (“Utility”) for amendments to its Schedule of Rates and Charges for Water and Water Services pursuant to the *Public Utilities Act*, R.S.N.S. 1989, c. 380, as amended (“Act”). The existing Schedule of Rates and charges for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2015, and May 1, 2011, respectively.

[2] A rate study to support the application, dated October 2015, was prepared by Melony Robinson, and was submitted to the Board on October 21, 2015 (Exhibit P-2).

[3] The Utility later filed a revised Schedule 13 of the rate study, correcting some calculations (Exhibit P-3).

[4] A revised rate study (“Rate Study”) (Exhibit P-5) dated December 2015 was filed as a part of the responses to Information Requests (“IRs”), which included amendments with respect to the allocation of projected operating expenses for fire protection and general services. These revisions resulted in a slight reduction in the proposed rates for the Utility’s customers from those in the original rate study. Unless otherwise noted, it is the Rate Study which is discussed in this Decision.

[5] The Rate Study proposed rates for the years 2016/17, 2017/18 and 2018/19 (“test years” or “test period”). The proposed amendments to rates for 5/8” meter customers, based upon an average quarterly consumption of 51 cubic metres, are increases of 8.19%, 1.51%, and 1.57% for each of the test years respectively. For all other metered customers, based upon the average quarterly consumption of each meter

size, the proposed rate changes range from increases of 12.51% to 15.67% in 2016/17, 1.05% to 1.75% in 2017/18, and 0.89% to 2.58% in 2018/19.

[6] The Rate Study also proposed amendments to its annual public fire protection charge to be paid to the Utility by the Village for each of the test years. The proposed increases to the public fire protection charge are 20.72%, 3.49% and 1.36%, for each of the test years respectively.

[7] The public hearing was held at the Port Williams Community Hall on January 12, 2016, after due public notice. Melony Robinson, Consultant, represented the Utility. The Utility was also represented by Darlene Robertson, Village Clerk, Geneva Newcombe, Finance Manager, and Joe Keddy, Superintendent of Public Works.

[8] The Board did not receive any written comment and no member of the public made a presentation at the hearing.

[9] The Utility provided responses to Undertakings U-1 to U-3 on January 25, 2016. Exhibit 1 attached to the Undertaking U-1 response was amended and filed on January 27, 2016.

[10] The rates are approved as amended and subject to a Compliance Filing. There are no proposed amendments to the Schedule of Rules and Regulations and Board approval is not required.

II INTRODUCTION

[11] The Utility has a groundwater source of supply from five wells. Ultra-violet light is used as a pre-treatment with chlorine gas for disinfection. The treated water is stored in a 700,000 US gallon reservoir in the Village prior to distribution to the Utility's

customers. A transmission main (12" diameter) feeds the Utility's distribution system which is composed of 4", 6", 8" and 10" diameter watermain.

[12] The Utility's distribution system is aging and is in need of upgrades, which have been occurring over the past number of years. These works were included in the previous two rate studies. The current Rate Study also includes funds for additional watermain rehabilitation.

[13] The Utility currently serves 425 customers, of which 411 are residential. All of the Utility's customers are metered with the exception of one, which is expected to be metered by the end of the first test year.

[14] The Rate Study projects that there will be a modest growth in the number of customers over the test period from 425 to 427. Both of the new customers are to be connected to the water system via large-size meters. One of the additions is a brewery and the other a distillery.

[15] The application was presented to the Board based upon the need to adjust the rates as a result of increased operating costs and projected capital expenditures during the test years, as well as repayment of funds owing to the Village.

[16] The Utility confirmed that non-revenue water is roughly 5% of the water produced. The 5% amount includes both accounted and unaccounted for water losses.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[17] The Rate Study estimates that there will be an excess of revenue over expenses for the 2015/16 fiscal year of \$9,706, resulting in an accumulated operating deficit of \$165,015 as of March 31, 2016.

[18] The Rate Study projects that, with no increase in rates, the operating losses will be \$40,675, \$47,316 and \$51,415, for each of the test years respectively, resulting in an accumulated operating deficit of \$291,421 at the end of the test period.

[19] The operating expenses contained in the Rate Study are based upon the Utility's budget for the 2015/16 year, with projected annual increases of 3% to account for inflation with the exception of certain expense items, including depreciation. The annual depreciation expense is based upon the Utility's existing assets and proposed capital additions.

[20] The Utility explained its budgeting process in response to Board IR-20, and noted that this process remains the same as was used in the last rate study.

[21] The Utility provided a breakdown of the allocation of administrative and general expenses between the Village and the Utility:

Bills that are strictly water are posted to the Utility's separate books. If the bill is for a variety of items of which some portion belongs to the Water Utility, these costs are allocated to the Utility through the "due to from accounts" found in each set of books. These accounts are balanced on a monthly basis. Items that are pro-rated on a monthly basis are telephone, wages and prepaid insurance.

[Exhibit P-4, IR-21, p.9]

Findings

[22] The Board has reviewed the information presented in relation to the Utility's projected operating expenses and finds the amounts reasonable.

[23] The majority of proposed operating expenses over the test years are based upon an annual increase of 3%, which is consistent with other rate applications recently approved by the Board. The Board accepts the annual 3% increase as reasonable.

[24] The Board accepts the Utility's explanation of its budgeting process and finds the projected operating expenses, including depreciation, to be reasonable.

[25] The Board accepts the allocation of expenses between the Village and the Utility. The Utility is to revisit these allocations in its next rate application to ensure that they reasonably reflect the amount of work performed for each entity.

[26] The Board accepts the operating expenses as contained in the Rate Study.

(B) Non-Operating Expenditures and Revenues

[27] The Rate Study included projections of non-operating revenues and expenditures for the test years.

[28] The Rate Study contained non-operating revenue of \$1,000 in each of the test years for connection charges.

[29] Non-operating expenditures include: capital expenditures from revenues in the amount of \$10,000 in each of the test years; debt repayment to the Village in the amount of \$40,000 in each of the test years; and long term debt repayment in the first and second test years, after which the current long-term debt would be retired.

[30] The Utility noted that the non-operating expenditure of payment to the Village was for funds borrowed by the Utility from the Village and have accumulated over a number of years.

[31] The calculations in the Rate Study results in a return on rate base of 2.16%, 2.06% and 1.86% for each of the test years respectively.

Findings

[32] The Board accepts the non-operating revenues of \$1,000 per year, as presented in the Rate Study.

[33] The Board accepts the non-operating expenses over the test period as outlined in the Rate Study relating to the existing debt charges and the \$10,000 per test year of capital out of revenue.

[34] The Board does not approve the non-operating expenditure of \$40,000 per year as debt repayment to the Village. This is discussed later in the Decision.

[35] The Board finds the methodology for the calculations of return on rate base over the test period to be reasonable. However, based on the Decision, the numbers as calculated will change. The Utility is ordered to revise the Rate Study and these calculations, as a part of the Compliance Filing.

(C) Funds Borrowed from the Village

[36] The Rate Study includes non-operating expenditures of \$40,000 in each of the test years as a payment to the Village for outstanding debt.

[37] The Utility noted that the funds owed to the Village were borrowed over a number of years and not repaid. In response to Board IR-9 regarding why funds were borrowed, the Utility stated:

Historically (before the current Clerk) all water expenses were paid from the Village account and became a liability of water.

[Exhibit P-4, IR-9, p.5]

[38] Board Staff prepared a table before the hearing, outlining the accumulated surplus/deficit, depreciation fund balance, capital out of revenue for each fiscal year from 2006/07 through to and including 2014/15, using the Utility's financial statements filed annually with the Board. The table also included a revised accumulated surplus/deficit and revised depreciation fund balance assuming that the maximum amount possible of

capital additions came from depreciation funds as opposed to capital out of revenue. The table was provided and discussed with the Utility at the hearing (Exhibit P-7).

[39] The Board requested the Utility to review the above table and provide its comments as an undertaking. The Utility provided its response to the Undertaking on January 25, 2016. In Correspondence dated January 27, 2016, the Utility revised Exhibit-1, attached to its response to Undertaking U-1. The Utility added capital out of revenue amount for 2007/08 and corrected capital out revenue amount for the years 2013/14 and 2014/15 and corresponding changes to other line items. The Utility noted that the loan from the Village was used to become compliant with the new Provincial water regulations for a new well, water storage tank, SCADA system and water treatment projects. The Utility also included a chart with the response to Undertaking U-1 (Exhibit 2) indicating that most of these funds were used for capital projects.

[40] The financial statements for the year 2014/15 indicate that the Utility has an accumulated deficit of \$174,721, which is largely due to expenses incurred for capital projects over number of years and paid from operating revenues. The Utility also has a depreciation fund balance of \$277,642 at March 31, 2015. In response to the Board IR-2, the Utility estimated that the balance in the depreciation fund at the end of March 31, 2016 will be \$351,682. In fact, the Utility has enough depreciation funds to pay its accumulated deficit, which the Board understands is related to capital out of revenues.

Findings

[41] The Board has reviewed the information provided in the Rate Study and Undertaking U-1.

[42] The Board does not approve the Utility's request for \$40,000 in each of the test years for the purposes of repaying the loan to the Village.

[43] The Board understands that the loan from the Village is a cash flow and financial management issue for the Utility. Most of the accumulated deficit is the result of using capital out of revenues to fund capital projects over a number of years. The Board understands that funds are currently available in the depreciation fund to pay for all of the Utility's accumulated deficit. The Board approves the payment of accumulated deficit of \$174,721 from the Utility's depreciation fund which is expected to have a balance of \$351,682 as of March 31, 2016. If the remaining balance in the depreciation fund is not sufficient to pay for the capital projects during the test years, as proposed in the Rate Study, the Utility may need to borrow a small amount to finance its proposed capital projects. The Utility is ordered to determine if it needs to borrow any funds and include its cost in the Compliance Filing. On a go-forward basis, the Utility should borrow or pay from the depreciation fund to finance its capital projects and not from operating revenues unless funds are available without going into a deficit position.

(D) Capital Budget and Funding

[44] The Utility's projected capital budget over the test period totals \$439,750, consisting of distribution main replacements and new hydrants, with most of the expenditures expected to occur over the first two test years.

[45] The proposed fundings for the three-year capital program are: Nova Scotia Gas Tax Funds in the amount of \$70,000 and \$60,000 in 2016/17 and 2017/18 respectively; depreciation funds in the amount of \$150,000, \$120,000, and \$10,000 in

2016/17, 2017/18, 2018/19 respectively; and capital out of revenue in the amount of \$10,000 in each of the three test years.

Findings

[46] The Board accepts the Utility's explanation of its asset replacement program and its continuing good management practices of distribution main rehabilitation.

[47] The Board finds the Utility's proposed capital program to be reasonable and is accepted.

[48] As noted earlier in the Decision, the Board has approved funding the Utility's accumulated deficit to March 31, 2015 from the depreciation funds, which leaves a balance of \$176,961. This may require the Utility to borrow funds for its capital projects in the test years. The Utility is ordered to review this and make the necessary changes to fund its capital program as a part of the Compliance Filing.

[49] The Board approves the funding for capital projects in the test years as revised in the Decision.

[50] The Utility is reminded that a separate Board approval is required for projects in excess of \$250,000, as set out in s. 35 of the *Act*.

IV REVENUE REQUIREMENT ALLOCATION

(A) Public Fire Protection

[51] The fire protection charge, currently \$71,141, is proposed to increase to \$85,884, \$88,879, and \$90,086 in each of the test years, respectively.

[52] The methodology used to determine the public fire protection charge is generally consistent with the Board's *Water Utility Accounting and Reporting Handbook*

(“*Handbook*”), as well as the methodology used by the majority of other water utilities in the Province, and is the same as was used in previous rate studies for the Utility.

Findings

[53] The Board accepts and approves the methodology used to determine the annual public fire protection charge for the test years.

[54] The Board notes that its Decision not to approve \$40,000 per year from non-operating expenditures and the possible addition of new debt may affect the fire protection charge and rate of return for each of the test years. The Utility is ordered to recalculate the fire protection charges and rate of return as a part of the Compliance Filing.

(B) Utility Customers

[55] The remaining revenue requirements, after the allocation to fire protection charges, is to be recovered from the Utility’s customers. The methodology used to allocate the remainder of the expense items to the base, customer, delivery and production categories are in line with the recommendations in the *Handbook* with the exception of the transmission and distribution expense, which is allocated 50/50 to base/delivery as opposed to the 100% allocation to delivery.

[56] The Utility in the last two rate studies (2010, 2013) used the same allocation (50/50) for the transmission and distribution expense. In response to the Board IR-17, the Utility stated that the rationale for the 50/50 allocation is to moderate the changes to the base and commodity charges. The Utility also noted that this allocation is used in many small utilities for the same reason.

[57] The consumption volumes, based upon the Utility’s total annual consumption of an estimated 113,366 cubic metres in 2015/16, are proposed to increase

in the first year due to the addition of two large customers, followed by smaller increases in each of the final two test years and is expected to reach 118,027 cubic metres at the end of the test period.

[58] The Utility proposes to maintain the single block rate structure, as was the case in previous rate studies.

[59] The Rate Study included the addition of two industrial customers as being connected to the system by 1" meters. During the hearing it was noted that one of these customers will be connected with a 1.5" meter, while the other with a 2" meter.

Findings

[60] The Board accepts the methodology used by the Utility in the calculation of base rates and consumption charges, as well as the allocation of the transmission and distribution expense as 50/50 to base/delivery as opposed to the 100% allocated to delivery as per the *Handbook*.

[61] The Board approves the base rates and consumption charges for the Utility's customers, subject to the Compliance Filing, including changes to meter sizes for the two new customers.

V SCHEDULE OF RATES FOR WATER AND WATER SERVICES

[62] In response to the Board IRs, the Utility indicated that there were no changes other than the proposed amendments to the base rates and consumption charges as discussed above and one addition to the Schedule of Rates and Charges.

[63] The proposed addition was s. 13, *Water Services in the Village of Port Williams*. This section was added due to the new construction in the Village. The Utility proposed that all new construction must be connected to the Utility's water system. The

Utility also proposed that all existing customers must continue to be its customers. This was proposed to reduce the risk of contamination to the system and also for the Utility to remain financially viable.

[64] The Board noted that the proposed addition does not appear to be covered under the *Act* and additional information is required to justify this addition. As part of its response to Undertaking U-2, the Utility indicated that it wishes to withdraw the proposed addition of s. 13, and pursue other avenues.

Findings

[65] The Board accepts the withdrawal of the Utility's request to add s. 13 to the Schedule of Rates for Water and Water Services.

[66] The Board approves the Schedule of Rates and Charges for water and water services as amended in the Decision and subject to the Compliance Filing with an effective date of April 1, 2016.

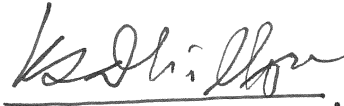
VI SCHEDULE OF RULES AND REGULATIONS

[67] In response to the Board IR-29, the Utility indicated there were no amendments or additions proposed to the Schedule of Rules and Regulations, and as such, Board approval is not required.

VII COMPLIANCE FILING

[77] The Board has made a number of changes to the Rate Study as noted in the Decision. The Utility is ordered to file a revised rate study incorporating these changes no later than March 28, 2016. The Board will issue an Order after reviewing the Compliance Filing.

DATED at Halifax, Nova Scotia, this 17th day of March, 2016.

A handwritten signature in black ink, appearing to read 'K. Dhillon', written over a horizontal line.

Kulvinder S. Dhillon